If this standard made any sense in 1975, something Media General strongly contests was not the case, it holds absolutely no logic today. As Media General's Comments and those of other parties favoring repeal of the rule have documented in great detail, the media world of today is vastly different, more complex, and more pluralistic than it was in 1975. Not only have radio and television stations multiplied many times since adoption of the rule, virtually all markets in the country are now served by cable television and most, if not all, will soon be served by direct broadcast satellite service and satellite-delivered digital audio radio service. Weekly and other specialty publications abound. The Commission now authorizes new low power television and radio stations, and the Internet offers a ubiquitous source of local and national news and information. Chances are no market would any longer qualify as "egregious" under the narrowly drawn old standard, but if any did, there would be no question that its residents have vastly increased access to news and information than was the case in 1975. A standard of divestiture that was adopted in 1975 premised only on a speculative "hoped for" gain in diversity dispositively holds no validity today as a standard for prohibiting prospective cross-ownerships.

All of the conjectural concerns over potential anticompetitive abuses and posited standards for continued restraints on newspaper/broadcast cross-ownerships share a common predicate -- an interest in having the FCC insert itself into an antitrust review and enforcement process that is already well-handled by agencies with much more expertise in this area than the FCC. The FCC does not have a well-defined merger review process. Indeed, in the broadcast area alone, simultaneously with this proceeding, the FCC has thrown open for comment and is re-thinking how it handles radio mergers.[64] Unlike newspaper/broadcast cross ownerships, radio mergers do not involve unregulated assets (like newspapers) that function in what DOJ has defined as an entirely separate product market. In the case of newspaper/broadcast cross-ownership, the FCC has departed from an area solely within its regulatory province. Parties suggesting standards short of total repeal would have the FCC continue to duplicate and compete with the functions of DOJ, FTC, and state antitrust agencies. None of these parties has submitted any documentary evidence warranting such intrusions by the FCC into areas of expertise beyond its customary purview. The agency's attempts at economic regulation of the broadcast industry have been unsuccessful and proven unwarranted in the past.[65] There is no basis -- factual or legal -- for the FCC to continue such regulation in the case of common ownership of newspapers and broadcast stations.

IV. Since Initiation of This Proceeding, the Need for Relief from the Outdated Newspaper/Broadcast Cross-Ownership Ban Has Grown Even More Severe.

In their comments, parties supporting repeal of the rule document the dramatic erosion that has occurred since 1975 in the dominant competitive position once enjoyed by the traditional

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[64] *Notice of Proposed Rule Making and Further Notice of Proposed Rule Making*, MM Docket Nos. 01-317 and 00-244, FCC 01-329 (rel. Nov. 9, 2001).

[65] For example, under the *Carroll* Doctrine, which stemmed from a 1958 decision by the United States Court of Appeals for the District of Columbia Circuit, *Carroll Broadcasting v. FCC*, 258 F.2d 440 (D.C. Cir. 1958), the FCC for many years allowed existing broadcasters to oppose new facilities applications on the grounds that, if the new license were granted, the incumbent would suffer detrimental economic effects which would result in a net loss of service to the public. Under the UHF Impact Policy, *Triangle Publications, Inc.*, 29 FCC 315 (1960), *aff'd*, *Triangle Publications v. FCC*, 291 F.2d 342 (D.C. Cir. 1960), the FCC considered the adverse economic impact on existing or potential UHF stations of the grant of applications to initiate or improve VHF service. In 1988, the FCC abolished the *Carroll* doctrine, finding it based on outmoded economic theory, and eliminated the UHF Impact Policy as no longer necessary in light of changed competitive conditions. *Policies Regarding Detrimental Effects of Proposed New Broadcasting Stations and Existing Stations,* 3 FCC Rcd. 638 (1988), *recon.*, 66 R.R. 2d 19 (1989).

newspaper and broadcast media.[66] Prior to the submission of the initial comments, these highly-advertising dependent businesses had been particularly hard hit by the downturn in the U.S. economy.[67] Since those filings in early December, these difficulties have only intensified, bringing more dismal reports and predictions regarding broadcasters' and newspapers' future revenue prospects. Moreover, these declines in revenue come at a time when television broadcasters, in particular, face the need to meet government-imposed deadlines for DTV implementation, when many television owners are experiencing declines in network compensation, and when newspapers and broadcast stations alike are confronted with continuing high news gathering and production costs. The threat to the continued viability and provision of local news and information has never been greater. Given this environment, elimination of the outdated newspaper/broadcast cross-ownership ban -- long overdue in any event -- is not only timely but necessary to help local media players compete against large national and international players that typically provide non-local news and information across all markets.

Forecasts regarding the advertising industry that have been issued since the end of 2001 paint the bleakest picture in at least a decade. A poll conducted last month found that fifty-four percent of advertising agencies and marketers believe ad budgets will fall even more in the next 12 months, and 50 percent of respondents said it will be two years before spending returns to 2000 levels.[68] Such a decline for a second year in a row would be an industry record.[69] Many believe that this advertising downturn is already worse than the advertising recession of 1990-

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[66] *E.g.*, NAA Comments at Section III and Appendix I; Bear Stearns Comments at 7-16, 19-25.

[67] NAA Comments at 79.

[68] M. Cardona, *Most Ad Execs Say Budgets Will Drop Throughout 2002*, ADVERTISING AGE (Feb. 11, 2002) <http://www.adage.com/news.coms? newsld = 33994.

91,[70] and others, such as prominent advertising forecaster Robert Coen of Universal McCann, claim that the advertising decline of 2001 is the worst since World War II.[71]

As many commenting parties, particularly Bear Stearns, documented in their initial comments, these downturns confront a newspaper industry that since 1975 has suffered consistent circulation and household penetration declines and decreases in "measured media" and total advertising revenue shares.[72] These negative results have predictably caused a drop in the number of local newspapers since 1975, a decrease Bear Stearns estimates at 16 percent from 1975 to 2000, despite the fact that the number of U.S. households has increased by nearly 46 percent over the same period.[73]

Conditions are at least as bad, if not worse, for local television broadcasters, who face the general shrinkage in the overall advertising "pie" as well as increased defection of their programming audiences to other video outlets, principally cable television and stations affiliated with new national broadcast networks.[74] Specifically, local television broadcasters have lost 13 percent of their advertising dollars and 34 percent of their audience in the past 25 years to six new broadcast networks and at least 52 new cable networks while seeing their own ranks grow

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...continued

[69] *Industry Comes to Terms with a New New Economy*, ADVERTISING AGE, Dec. 10, 2001, at 6, 72.

[70] *Agency Jobs Slip 9% from Peak*, ADVERTISING AGE, Dec. 17, 2001, at Cover, 25.

[71] S. McClellan, *The Long, Hard Climb Back*, BROADCASTING & CABLE, Jan. 14, 2002, at 48.

[72] Bear Stearns Comments at 7-11.

[73] *Id.* at 12-13. As the Media General Comments noted, newspaper readership among younger Americans is also declining at an accelerating pace. Media General Comments, Gentry Statement, Appendix 4, at 2.

[74] D. Mermigas, *A Tough Year Ahead for Stations*, ELECTRONIC MEDIA, Jan. 14, 2002, at 26.

by approximately 500 new television stations.[75] Most local television affiliates have also experienced a precipitous drop, if not evaporation, in network compensation,[76] at the same time they are locked in a regulatory skirmish with the networks over what are legal and illegal network practices.[77]

As the Bear Stearns Comments note, recent changes in home entertainment usage have more longer-term and disconcerting implications for television stations. A new study conducted by Jack Myers, which has been noted in the Bear Stearns Comments as well as the trade press, shows a significant shift of home entertainment usage is underway, especially among teens. According to this study, adults view television 4.5 hours daily on average and spend 1.2 hours daily online from home. By comparison, more technologically-savvy 13-17 year olds spend only 2.8 hours a day watching TV, while they spend 3.5 hours a day online and another 1-2 hours playing video games.[78]

These downturns in revenues and audience are coming at a time when government-mandated investments in DTV facilities are further draining television broadcasters' capital budgets. In recognition of the "limited financial resources" of many of these broadcasters, the FCC, shortly before the initial comment deadline in this proceeding, announced its willingness to

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[75] *Id. See also* S. McClellan, *No Star, But Better*, BROADCASTING & CABLE, Jan. 14, 2002, at 52. Television stations are not the only broadcasters facing difficulties. Radio revenues were down seven percent in 2001 at the same time radio is beginning to face competition from new satellite-delivered audio services. S. McClellan, *The Long, Hard Climb Back*, at 48.

[76] *E.g.*, S. McClellan, *Can These Marriages Be Saved?*, BROADCASTING & CABLE, Jan. 14, 2002, at 6, reporting 55 percent drop in network compensation in recently executed Post-Newsweek/Fox affiliation agreement, a decline it says is similar to that the network has struck with other large affiliate groups.

[77] "Comment Sought on 'Petition for Inquiry into Network Practices' Filed by Network Affiliated Stations Alliance," *FCC Public Notice,* DA 01-1264, released May 22, 2001.

[78] Bear Stearns Comments at 5; D. Mermigas, *A Tough Year Ahead for Stations*, at 26.

consider requests for extension of the May 1, 2002 DTV construction deadline premised on financial hardship and recently announced a February 19 to March 1, 2002 window for submission of such requests.[79]

This panoply of circumstances -- reduced advertising spending, declining network revenues, loss in audience, and greatly increased capital expenditure obligations -- have begun to cause severe cutbacks in the services local broadcasters deliver to their markets. As documented at great length in Media General's Comments, over thirty local broadcast stations have cancelled newscasts on their facilities in the last three years, cut-backs that occurred at network affiliates and independents in both small and large markets.[80] In just the ten weeks since submission of initial comments, six more television stations have made cancellations of local newscasts.[81]

Despite these industry curtailments and the daunting economic and competitive environment, Media General and many other owners of local television broadcast stations still work very hard to provide a strong, professional, and credible news product at their television stations. Media General believes that it has a firm obligation to provide services, including local news and information, to the communities and surrounding areas that its stations are licensed to serve. This same commitment imbues publication of its newspapers and operation of its local websites. Media General's news and information content is consumer-driven, varying from outlet to outlet, even within a single market, based on the geographic coverage and demographics

[79] "Mass Media Bureau Releases New FCC Form 337, Application for Extension of Time To Construct a Digital Television Broadcast Station," *FCC Public Notice*, DA 02-216, January 30, 2002; *Memorandum Opinion and Order on Reconsideration (MM Docket No. 00-39)*, FCC 01-330, released November 15, 2001 at ¶¶ 41-51.

[80] Media General Comments, Attachment A to Appendix 4. *See also* NAA Comments, Appendix 1 at 18-19.

[81] Appendix C attached. *See also* D. Trigoboff, *Live at 11? Maybe Not for Long*, BROADCASTING & CABLE, Feb. 11, 2002, at 29.

of each outlet which frequently vary. Media General's content responds to local needs because, as discussed in the statement of Professor Gentry attached to its Comments, it believes that is the only way to build a saleable product.[82]

Media General has chosen to dedicate extensive resources to serving local needs because it believes that this is a good business strategy. The Commission, on the other hand, is required in its regulatory decisions to consider local market concerns and foster localism in the provision of broadcast service.[83] The record evidence of an overall decline in the industry position of newspapers and broadcasters and the economic challenges that they are facing is uncontroverted in this proceeding. So, too, are examples of cutbacks in news and other services at particular properties, such as those Media General has documented.

At the same time, the FCC has a heightened obligation under Section 202(h) of the Telecommunications Act of 1996 to evaluate market conditions biennially and determine whether any of its ownership rules remain "necessary in the public interest as the result of competition."[84] Marketplace developments since adoption of the ban clearly have created extensive competition in all aspects of the services that broadcasters and newspapers render. Given this fact and the record in this proceeding, the FCC cannot make a showing that competitive considerations require retention of the rule. Thus, Section 202(h) mandates that the

[82] Media General Comments, Gentry Statement, Appendix 4.

[83] *See* 47 U.S.C. § 307(b). *Pinellas Broadcasting Co. v. FCC*, 230 F.2d 204, 207 (D.C. Cir. 1956), *cert. denied*, 350 U.S. 1007 (1956). "In requiring a fair and equitable distribution of service Section 307(b) encompasses not only the reception of an adequate signal but also community needs for programs of local interest and importance and for organs of local self-expression."

[84] Pub. L. No. 104-104, § 202(h), 110 Stat. 56, 112 (1996).

FCC eliminate the newspaper/broadcast cross-ownership rule as no longer necessary for the public interest as it relates to competition. The ban must be repealed.

Similarly, nothing in the comments submitted in this docket has refuted Media General's contention that fundamental principles of administrative law and constitutional jurisprudence also compel the rule's repeal. Supreme Court affirmance of a rule's initial adoption does not render the rule immutable in perpetuity. Changed circumstances require an agency to reexamine and repeal rules for which the original predicates have been invalidated.[85] Any failure to act in such circumstances is particularly suspect to challenge if the rule at issue impinges on constitutional rights of affected parties, as is the case with the newspaper/broadcast cross-ownership ban.[86]

Elimination of the FCC's ban on ownership of newspapers and broadcast stations will provide the relief that local newspaper and broadcast owners need to continue to serve their local communities. The need for this relief is so uncontrovertible and its likely result so clear that the FCC cannot escape its obligations under the Communications Act, the Telecommunications Act of 1996, and administrative and constitutional law. Elimination of a rule that was adopted to serve once speculative, and now discredited, rationales will have a clear public interest benefit in the renewed ability it will give local broadcast outlets and newspapers to serve their local communities. Allowing convergence will promote preservation, development, and dissemination of local news. The rule should be repealed to allow these benefits.

[85] *E.g.*, *Bechtel v. FCC*, 957 F. 2d 873, 881 (D.C. Cir. 1992).

[86] Media General Comments at 66-80.

IV. Conclusion

Lacking any basis in the record to support retention of the newspaper/broadcast cross-ownership rule, the FCC should act swiftly to repeal it.

Respectfully submitted,

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APPENDIX A

BEHAVIORAL ANALYSIS OF NEWSPAPER-BROADCAST CROSS-OWNERSHIP RULES IN MEDIUM AND SMALL MARKETS

Economists Incorporated

January 2002

Introduction and Summary

The Commission is again reviewing its rule prohibiting the ownership by a single party of a broadcast station and a daily newspaper in the same locale.[1] The Commission states that the rule rests at least in part on the goal of promoting economic competition, specifically with regard to the market for advertising.[2] The purpose of this analysis is to determine whether or not the advertising rates charged by cross-owned daily newspapers are any higher than the rates charged by non-cross-owned properties, controlling for other factors. Indeed, in the current NOI the Commission states: "Studies and other evidence showing that advertising rates for newspaper/broadcast combinations are significantly higher than advertising rates for separately owned newspapers and broadcast stations would be particularly useful."

In analyzing competition, the Commission relies on the standard antitrust paradigm, that cross-ownership may facilitate the creation or exercise of market power, permitting a firm to raise prices. In the current NOI, the Commission states, "As we review our newspaper/broadcast cross-ownership policies, we

[1] *Notice of Inquiry* (NOI), In the Matter of Cross-Ownership of Broadcast Stations and Newspapers, MM Docket No. 01-235, and Newspaper/Radio Cross-Ownership Waiver Policy, MM Docket No. 96-197.
[2] NOI, ¶ 19.

therefore seek information about the economic impact of maintaining or modifying the rule. As we do so, we focus on the primary economic market in which broadcast stations and newspapers may compete: advertising."[3] In particular, the Commission focuses on competition among newspapers, television and radio in the sale of advertising. Although this focus is overly narrow because it excludes other relevant competing media, the estimation of revenues for other advertising media for a meaningful geographic area is an exceedingly difficult undertaking and is beyond the scope of this paper. In this analysis we investigate the relationship between newspaper advertising prices and cross-ownership for a sample of over 1,400 newspapers, taking into account ownership concentration of advertising in these three media and other relevant factors.

A study previously completed by Economists Incorporated[4] using the same sample of newspapers provided no indication that cross-owned newspapers charge higher advertising prices than other newspapers, once other relevant factors are controlled for. These 1,400 newspapers were drawn from all 211 DMAs, representing markets of all size. Although we believe that the previous analysis indicates no competitive justification for a broad prohibition on cross-ownership regardless of market size, the purpose of this analysis is to demonstrate conclusively the robustness of our previous results in smaller markets.

[3] NOI, ¶ 19.

[4] Structural and Behavioral Analysis of the Newspaper-Broadcast Cross-Ownership Rules, Economists Incorporated, July 1998.

Competition in Advertising

As explained in the Department of Justice and FTC's *Horizontal Merger Guidelines,*[5] an important step in evaluating the competitive effect of a merger is determining the relevant product market. Starting from the point of view of customers for whom the merging media are good substitutes, the relevant product market should include all the products which a hypothetical monopolist must control in order to profitably raise prices to those customers.[6] Economists are in general agreement that the higher the concentration of ownership in a relevant market, the greater the likelihood that anticompetitive behavior will occur.

The Commission invites comment on whether daily newspapers, radio stations and television stations compete one with another for the sale of advertising.[7] Indeed, there can be no competitive rationale for the cross-ownership rule unless the relevant product market is at least this broad. Although the Commission acknowledges that cable television may also compete in this advertising market,[8] and we would further argue that newspapers other than daily newspapers, direct mail, yellow pages, and outdoor advertising are other media that compete with newspaper, radio and television advertising, this paper focuses on only those media that are the subject of the cross-ownership rule.

Concentration

Although cross-ownership by definition increases concentration at least marginally, the purpose of this analysis is to measure any price effects of cross-

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[5]Department of Justice and Federal Trade Commission Horizontal Merger Guidelines, Federal Register, Vol. 57, No. 176, September 10, 1992.
[6]Horizontal Merger Guidelines, § 1.11.
[7] NOI, ¶ 19.
[8] NOI, ¶ 22.

ownership holding constant concentration. We measure competition through the use of the Herfindahl-Hirschman Index (HHI).

Competitive analysis requires the definition of a relevant geographic market. This paper does not focus on identifying a single correct definition of the geographic market. For obvious reasons, public data on audiences are based on certain industry-standard geographic definitions. It is difficult to find data for geographic areas defined in other ways. Industry-standard geographic markets are far from arbitrary. Indeed, they should serve as an obvious focal point for competitive analysis because they are areas that the rating services have found most valuable to their customers—advertisers and advertising media.

For purposes of this analysis we use DMAs as a proxy for media advertising markets. Since what advertising media are measurably selling, and advertisers are measurably buying, from a geographic perspective is a DMA (or another industry-standard area), it makes sense to focus on such areas when considering the effects of media combinations. HHIs were calculated based on 1997 revenues attributable to each radio station, television station, or newspaper owner in the DMA. BIA was the source for radio and TV station revenues. Duncan's Radio Market Guide (1998) provided an estimate of newspaper advertising revenue for selected newspapers. Estimated revenue includes retail advertising, inserts, and commercial real estate and dealer automotive classified advertising.[9] Advertising revenue was then summed across all newspapers for which Duncan provided an estimate. This sum was divided by the total weekly circulation of the same newspapers to form an average revenue/circulation ratio. For each newspaper not among those estimated by Duncan, this ratio was multiplied by the

[9] Classified advertising that would be placed by an individual rather than a business is not included.

newspaper's average weekly circulation to get an estimate of advertising revenues.

Having estimated the advertising revenues of each commercial radio and television station and each daily newspaper in each DMA, the last step before calculating HHIs was to group together stations and newspapers under common ownership. Sources used to determine ownership were BIA, Editor & Publisher International Yearbook (1998), Broadcasting & Cable Yearbook (1997), and information on newspaper-broadcast cross-ownership supplied by the Newspaper Association of America (NAA).[10]

Procedures and Findings

The behavioral analysis contained here is a reduced-form regression analysis of daily newspaper advertising rates. A regression analysis is a statistical method generally designed to test a particular economic hypothesis. The regression analysis is implemented through the formulation and estimation of a model, the specification of the general relationship between a set of variables. Although a reduced-form model can be derived explicitly from a set of underlying structural equations which separately model the demand and supply for advertising from first principles, in this analysis the price of advertising for each newspaper is taken to be the result of this underlying equilibrium relationship without specifying the details, and assumed to be related to a set of exogenous explanatory variables.

The simplicity of the reduced form approach places certain restrictions on the choice of explanatory variables. For example, variables such as circulation or

[10] BIA information from 1997 was used to determine ownership as of 1997, the year of the revenue estimates. The source databases were Version 1.6, issued February 1997 (radio) and Version 1.7, issued June 1997 (television).

total advertising revenues which could plausibly have an effect on price as well as being affected by price (i.e., variables which are endogenous to the underlying system) must be excluded from the estimated equation.[11]

The 1998 Editor and Publisher Yearbook contains data on circulation and advertising rates for 1,509 U.S. daily newspapers. These data were combined with data from BIA, U.S. Census data, and other state-level data, in addition to the HHIs described below. The regression analysis utilizes data on each of the 1,412 U.S. daily newspapers for which these other data were also available. The equations to be estimated are of the following general form:

$$P_i = \alpha_0 + \alpha_1{*}X_i + \alpha_2{*}Y_j + \alpha_3{*}Z_k + \alpha_5{*}HHI_j + \alpha_6{*}XOWN_i + \varepsilon_i$$

The following categories list the universe of variables which were considered for analysis:

P_i = The price per inch of advertising in newspaper i for the daily edition.[12]

X_i = Individual characteristics of newspaper i, such as newsstand price (daily edition), a dummy variable for papers which publish both morning and evening editions, population in the city where newspaper i is published, dummy variables for Saturday and Sunday editions, and a dummy variable for newspaper format (tabloid vs. broadsheet).

[11] The determination of which variables are actually exogenous with regard to the underlying system is of critical importance from an empirical perspective. For an extensive discussion of this issue in this exact context, see Bruce M. Owen, "Newspaper and Television Joint Ownership," *The Antitrust Bulletin*, Vol. 18 (1973), and especially James N. Rosse, "Credible and Incredible Economic Evidence: Reply Comments in FCC Docket 18110," Stanford University RCEG, 1971.

[12] The rate used is the open inch rate. A standardized measure which controls for newspapers of differing physical size and number of columns would be more appropriate, but such data are simply not available for such a large sample of daily newspapers.

Y_j = Characteristics of the DMA market j in which newspaper i is published. Market level measures include per capita income, retail sales, number of television households, expected and historical population growth, expected and historical household growth, percentage of the population belonging to various ethnic groups, as well as variables which indicate the presence of other competing media in this market, such as number of AM and FM radio stations, the number of UHF and VHF television stations, and cable penetration in DMA market j.

Z_k = Characteristics of the state k in which newspaper i is published, including state Gross Domestic Product (GDP), the average level of wages in state k, and the price per kilowatt-hour of energy in state k.[13]

HHI_j = The level of market concentration in DMA market j, where the market here is defined as radio, television, and newspaper advertising (see discussion on the construction of the HHIs above).

$XOWN_i$ = A dummy variable indicating whether newspaper i is cross-owned.

[Note: all variables except dummy variables and variables which may take on values less than or equal to zero (*e.g.*, variables which denote a percent change) are expressed in natural logarithms.]

A regression model was first formulated using those independent variables from the above list which yielded the best explanatory fit. A separate regression was then run adding to the basic model the HHI variable and the cross-ownership dummy variable.

[13] State GDP is considered to be a general proxy for demand in state k. Wages and the price of energy are supply factors, related to the cost of actually publishing the newspaper.

The cross-ownership dummy variable is used to measure the net impact of cross-ownership on newspaper advertising rates. Dummy variables are a convenient way of testing for the presence of structural differences between two groups of observations, controlling for other factors. The dummy variable $XOWN_i$ in the equation above provides a numerical estimate of the magnitude of the net effect of cross-ownership on newspaper advertising rates. The 5% statistical test of significance for the coefficient on $XOWN_i$ can be interpreted as a test of whether cross-ownership has any net effect on newspaper advertising rates. The results of the regression analysis from Economists Incorporated's 1998 study on the effects of cross-ownership are presented in Table 1 below.[14]

Previous results

Table 1 - Previous Results (Instrumental Variables)

Variable	Parameter Estimate	Standard Error	t-Statistic
Intercept	-3.623*	0.843	-4.296
Price of Electricity	0.142*	0.051	2.757
Population	0.449*	0.009	49.337
Newsstand Price, Daily Edition	0.109*	0.044	2.481
Saturday Edition	0.243*	0.026	9.252
Sunday Edition	0.168*	0.026	6.467
Percent Population Hispanic	-0.054*	0.010	-5.694
Per Capita Income	0.116	0.062	1.885
HHI	0.032	0.056	0.563
Cross-Owned	0.086	0.064	1.353
$R^2 = 0.7934$	* denotes statisitcally significant at the 5% level		

There are several indications that the estimated model in Table 1 provides an excellent overall fit to the data. First is the R^2 of the regression, which measures how much of the variation in the dependent variable (newspaper advertising

[14] Table 1 is a reprint of Table 7 from Structural and Behavioral Analysis of the Newspaper-Broadcast Cross-Ownership Rules, Economists Incorporated, July 1998.

prices) is explained by these independent variables. The high value of 79.34% is a strong indicator that this regression has adequate explanatory power. In addition, the signs and magnitudes of the coefficients on each of the independent variables are consistent with what economic theory would predict. For example, the price of electricity is assumed to be a supply factor with regard to the publishing of newspapers, and has its expected positive sign. From the high value and significance level of the city population coefficient, it is clear that this variable has the most important positive effect on price.[15] Although newsstand price (daily edition), Saturday edition, and Sunday edition may have both cost and demand effects, the expectation is that they are more an indication of newspaper quality, and thus would be expected to have a positive effect on advertising prices.[16] No prior conjecture was made with regard to the effect on price of the percent of the DMA market population that is Hispanic, nor any of the other ethnic composition variables which were tried in the equation but found statistically insignificant. Clearly, DMA markets with higher per capita income are more attractive to advertisers, so that higher per capita income should (and does) have a positive influence on price.

If cross-ownership were to have a significant (positive) effect on prices, allowing for the overall level of concentration, then the XOWN dummy variable should also appear as a significant variable in the regression equation. However, the

[15] Information on population is taken from SRDS, *Circulation '97*. For newspapers with information on Newspaper Designated Marketing Area (NDM) population, the city population is equal to the NDM population. For newspapers with no information on NDM population, the City Zone (CZ) population was used. For newspapers with no information on either NDM or CZ population, the city population was taken from 1996 U.S. Census data. For a small number of large metropolitan areas in which each of these measures likely understates the potential readership (*e.g.*, Los Angeles), the Metro Area population was used as reported in *Circulation*.

[16] Because of the relative infrequency of changes in the edition structure or the newsstand price. of most daily newspapers, it is less likely that these variables could plausibly be the dependent variable in a regression with the price of advertising as an explanatory variable. Thus, the question of endogeneity is unlikely to arise here.

XOWN dummy variable was *not* found to be a significant factor in explaining newspaper advertising prices, controlling for other factors.

The HHIs in the regression assume a market which includes newspapers, radio, and TV. In the regression estimates in Table 1, HHI is not statistically significant. Finding that HHI is not significant could indicate that the relevant product market has been defined too narrowly. Newspaper, radio, and television also compete with other forms of advertising that were not included (*e.g.*, cable television, outdoor advertising, direct mail, etc.).

Smaller Markets

Having demonstrated that cross-ownership has no significant price effects across markets of all size, we turn our analysis now to the question of smaller markets. There are several ways to focus our analysis on smaller markets. The first is to simply run the original analysis on a subset of the data which excludes larger markets. The regression model in Table 1 was run again for the following market subsets, based on ranking the DMAs from largest to smallest: the smallest 52 DMAs (the lowest quartile), DMAs 106-158 (the third quartile), and the bottom 105 DMAs (the bottom half). The results of these analyses are presented in Table 2 as follows:[17]

Table 2 - Results for Smaller Markets Only (Instrumental Variables)

Variable	Parameter Estimate for Cross-Ownership Dummy Variable	Standard Error	t-Statistic
DMAs 159-211 (lowest quartile)	-0.006	0.165	-0.040
DMAs 106-158 (third quartile)	0.078	0.105	0.740
DMAs 106-211 (bottom half)	0.078	0.145	0.540

[17] Table 2 presents only the coefficients on the cross-ownership variable. The full regression results for each of the three regressions are omitted. The parameter estimates and significance levels for the other variables are qualitatively similar to the results for the entire sample presented in Table 1.

In all three sub-samples, the cross-ownership dummy variable is far from statistically significant, demonstrating that cross-ownership has no effect on advertising prices in each of these quartiles.

Another way to concentrate on smaller markets is to estimate a separate effect of cross-ownership for each DMA separately. This approach provides the maximum flexibility in isolating the effect of cross-ownership across market size by allowing any potential price effect of cross-ownership to differ for each and every market.[18] A regression similar to the analysis displayed in Table 1 was run, including a separate variable for the effect of cross-ownership in each DMA. Below in Table 3, the individual coefficients are presented for all DMAs which contain any cross-owned newspaper and broadcast properties in the bottom half of the rankings.[19]

Table 3 - Results for Each DMA Separately (Instrumental Variables)			
DMA	**Parameter Estimate for Cross-Ownership Dummy Variable for Particular DMAs**	**Standard Error**	**t-Statistic**
DMA 113	0.121	0.408	0.300
DMA 126	0.255	0.408	0.630
DMA 139	0.369	0.408	0.910
DMA 141	-0.122	0.408	-0.300
DMA 148	-0.153	0.411	-0.370
DMA 161	0.095	0.410	0.230
DMA 167	0.060	0.408	0.150
DMA 168	-0.088	0.410	-0.210
DMA 182	-0.237	0.413	-0.570

[18] Out of the full sample of 1,412 newspapers, 45 of them are cross-owned. These newspapers are published in 39 DMAs.

[19] Table 3 presents only the coefficients on the cross-ownership variables. The full regression results for the three regressions are omitted. The parameter estimates and significance levels for the other variables are qualitatively similar to the results for the entire sample presented in Table 1.

For each of the nine DMAs out of the bottom 106 DMAs which contain any cross-owned newspapers, the effect of cross-ownership on price is far from statistical significance, demonstrating that cross-ownership has no effect on advertising prices in these smaller markets.

Possible Measurement Error

The HHIs used in this analysis are potentially subject to at least two types of measurement error. First, it is unlikely that the DMA is the proper geographic market for all of the daily newspapers in the sample. For example, small newspapers compete in geographic markets that are considerably smaller than the DMA. Practical necessity dictated using DMAs, as it was not possible for this study to undertake a detailed analysis of the correct geographic market for over 1,400 newspapers. Second, there may be significant imprecision in the revenue estimates for individual newspapers, television and radio stations.

To account for this measurement error in the HHI calculations, the model described above was estimated using instrumental variables (IV). The essence of the IV approach is to find variables which can help to predict the variable which is suspected of measurement error, but which are unrelated to the dependent variable. Although the exact revenues for each of the radio, television, and newspapers in each DMA is not known exactly, the *number* of each type of property in each DMA is known exactly. These counts are clearly correlated with the HHIs, and thus are a natural choice to serve as instruments. Thus, the total number of radio stations, television stations, and newspapers in each DMA are used in a "first-stage" regression to predict the value of the HHI for that DMA. This predicted value is the one which appears in the final models in Tables 1-3.

Conclusion

This paper finds no reason to believe that cross-ownership is likely to lead to higher prices, specifically in smaller DMAs. We focused our analysis on smaller markets using two separate analyses. The first performed standard regression analyses on subsets of data which included only smaller markets. The second analysis tested for any potential impact of cross-ownership for each and every DMA separately. After controlling for other factors, there was no statistically significant difference between advertising prices of cross-owned newspapers and those of other papers in either analysis.

APPENDIX B

Research Efforts to Document Quincy, Illinois Advertising "Abuses"

Source:	Search	Conclusion
Lexis – Get by Party Name - Illinois federal and state cases	Tri-State Shopper, Quincy Herald Whig, WGEM, Quincy Newspapers, Inc., Quincy Merchant, The Unified Media for the Tri-States	no cases found
Lexis – Search by Illinois federal and state cases	Tri-State Shopper, Quincy Herald Whig, WGEM, Quincy Newspapers, Inc., Quincy Merchant, The Unified Media for the Tri-States	no cases found
U.S. DOJ website http://www.usdoj.gov/atr/cases.html (since 1994)	Tri-State Shopper, Quincy Herald Whig, WGEM, Quincy Newspapers, Inc., Quincy Merchant, The Unified Media for the Tri-States	no cases found
U.S. FTC website http://www.ftc.gov/bc/caselist/index.htm (since June 1996)	Tri-State Shopper, Quincy Herald Whig, WGEM, Quincy Newspapers, Inc., Quincy Merchant, The Unified Media for the Tri-States	no cases found
General Internet Search http://www.google.com	Tri-State Shopper, Quincy Herald Whig and competition, Quincy Newspapers Inc and competition, Quincy Merchant and competition.	no cases found
Federal Consumer Information Center		not applicable
http://www.chicago.bbb.org/search.html	Quincy, Herald-Whig, WGEM	no cases found
Illinois Department of Commerce and Community Affairs/Illinois Trade Office		not applicable – international trade issues
Illinois Commerce Commission		not applicable – only for state regulated activities
Illinois Attorney General Opinions http://www.ag.state.il.us/opi	Quincy, Herald-Whig, WGEM	no cases found

nions/opinions.html 217-785-2771		
Quincy Department of Planning & Development		not applicable
Quincy Chamber of Commerce 217-222-7980		referred back to the AG's office

APPENDIX C

Selected Press Accounts of Cutbacks in Local Television Newscasts
Reported December 31, 2001 through February 6, 2002

Market	Station	Decision	Source
New York	WCBS-TV (CBS)	Cancelled 4:00 p.m. newscast in January 2002.	1
Miami	WTVJ (NBC)	Cancelled midmorning newscast, added 4:00 p.m. newscast, in February 2002.	2
Greensboro/ Winston-Salem	WXLV-TV (ABC)	Cancelled local newscasts in January 2002.	3
Kingsport, TN	WKPT (ABC)	Announced that it would cancel weekday newscasts and brief updates in February 2002.	4
Evansville, IN	WEVV (CBS)	Cancelled local newscasts in late 2001.	5
Twin Falls, ID	KMVT (CBS)	Announced in February 2002 that it would cancel 5:00 p.m. newscast.	6

KEY TO SOURCES

Source	News Article
1	Chris Pursell, "Stations Scrambling to Slot New Strips," *Electronic Media*, Dec. 31, 2001 at 3.
2	Tom Jicha, "WTVJ Shifts Newscast to Late Afternoon," *Sun-Sentinel (Fort Lauderdale, FL)*, Feb. 6, 2002 at 3E.
3	Dan Trigoboff, "Station Break," *Broadcasting & Cable*, Jan. 7, 2002 at 40.
4	Dan Trigoboff, "Station Break," *Broadcasting & Cable*, Jan. 21, 2002 at 36.
5	Michael Schneider, "Local Newscasts Fall Victim to Cost Cuts," *Variety*, Jan. 28-Feb. 8, 2002 at 21.
6	Lorraine Cavener, "Twin Falls, Idaho, TV Station Drops Early-Evening Newscast," *Times-News*, Feb. 2, 2002.